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TAGS: [ETRD](#) [KIPR](#) [BEXP](#) [EFIN](#) [PREL](#) [CH](#)
SUBJECT: COMMERCE SECRETARY GUTIERREZ'S MEETING WITH
PREMIER WEN JIABAO, MARCH 28, 2006

Classified By: Deputy Chief of Mission David S. Sedney, Reasons 1.4 (B)
and (D)

¶1. (C) Summary. Secretary of Commerce Carlos Gutierrez emphasized to Premier Wen Jiabao in March 28 meeting that the next several weeks provide an opportunity for China to demonstrate that the U.S. policy of engagement can lead to tangible benefits to the peoples of both the United States and China and for China to address increasing perceptions in the United States that the trade and economic relationship with China is skewed towards China's benefit. A successful meeting of the Joint Commission on Commerce and Trade (JCCT) on April 11 with tangible results for the United States will be crucial to establishing an opportune climate for President Hu Jintao's visit to the United States little more than one week later. Premier Wen said that China is already taking measures to increase imports from the United States, and that such measures would not be one-time efforts but part of forming a mechanism to address the bilateral trade imbalance. The Premier highlighted steps to increase judicial penalties to improve protection of intellectual property rights (IPR) in China, and noted the long-term task of making every Chinese business and individual recognize the importance of IPR protection to China's goals of economic development and becoming an innovative country. On the exchange rate, Premier Wen said China will not engage in administrative interference in the exchange rate and pledged that China will continue its earnest work on exchange rate reform based on market conditions. China will display positive messages and actions on U.S. concerns, including on computer software issues, and the Premier said he believes that the two countries' efforts can make the April JCCT meeting into a success. End summary.

¶2. (SBU) After welcoming comments about Secretary Gutierrez's March 26-27 visit to Chongqing in western China, during which Premier Wen said that most of the fifty thousand U.S.-invested business operations scattered throughout China are operating very well, the Premier acknowledged the importance of the Secretary's visit and on-going preparations for the seventeenth meeting of the JCCT (April 11 in Washington). The JCCT should send a positive message to the

rest of the world that the bilateral trade and economic relationship brings benefits to both the United States and China and that when problems crop up in the relationship, they can be addressed through consultations. U.S.-China relations are a very important part of the overall relationship and have a direct bearing on that relationship. The Secretary's meetings earlier in the day with Vice Premier Wu Yi and Minister of Commerce Bo Xilai should have already shown the great sincerity of the Chinese side to those problems popping up in the relationship.

13. (C) From his December 2003 visit to the United States during which he put forward a five-point proposal to President Bush to President Bush's November 2005 visit to Beijing, during which he had put forward a three-point proposal, the Chinese side has clearly shown a constructive approach to mitigating and bridging differences, the Premier continued. That rapid development of bilateral economic and trade relations is the inevitable outcome of mutual needs is a fact to be acknowledged. Development of those relations is fundamentally in the interests of the peoples of both countries and in the interests of the long-term overall relationship. Both sides must face up to problems.

Premier on Three Major U.S. Concerns: The Trade Imbalance

14. (SBU) The Premier said he understood that the United States holds three major concerns about its trade and economic relationship with China, namely, in the areas of the bilateral trade imbalance, IPR protection, and the exchange rate for the renminbi. Judging from facts, the Chinese side has been making many efforts on these issues for several years. Rather than focusing on specific details of those efforts, the Premier said he wanted to focus on the Chinese

BEIJING 00005699 002 OF 005

side's attitudes and positions. Attitude is the fundamental basis from which to address our problems. Regarding the trade imbalance, positive efforts to reduce the imbalance should be taken. China does not pursue an overly large bilateral trade surplus, but rather hopes to maintain a relative balance in its trade with the United States. That means attaining a relative balance in import and export trade and a relative balance in China's international payments. China should try to increase its imports from the United States, rather than the United States trying to restrict imports from China. Increased Chinese imports from the United States would benefit both countries.

15. (SBU) Premier Wen opined that the Secretary already knew that China is taking effective measures to increase imports from the United States. Those efforts are not to be one-time measures but rather will serve as a mechanism to expand purchases from the United States. China needs those U.S. products, not only wheat and soybeans but also manufactured goods like aircraft and cars and also high-tech items. The Premier recommended that the United States open its market more to Chinese purchases of high-tech items. China will take multiple measures to create good opportunities for U.S. products, including product promotions and strengthening of bilateral economic cooperation, in order to stimulate U.S. exports to China. Progress on the trade imbalance will be seen before and after the seventeenth JCCT meeting, including in those areas of biggest concern to the United States.

Premier on IPR

16. (SBU) In China's view, improvement of IPR protection in China is not only a matter of facing up to international disputes but also a necessary step to ensure the healthy development of China's own economy. The Secretary's speech in Chongqing one day earlier included many facts about IPR protection problems in China, facts with which the Premier said he is already familiar. China's IPR protection situation still has problems, some serious. The Chinese Government has already recognized that situation and is

making utmost efforts to resolve those IPR problems. The government's efforts on IPR could be categorized into four aspects: (A) establishment of a mechanism; (B) administrative rectification; (C) judicial punishment; and (D) international cooperation. While those four aspects are interlinked, the most important one is judicial punishment. China needs to ensure that each individual and each business in China knows that IPR infringement is a crime. China has taken steps to improve coordination between administrative enforcement and judicial enforcement of IPR, and has lowered the threshold for criminal penalties for IPR infringements.

17. (SBU) Time and much effort will be required for China to attain its objective of having every individual and business recognize the importance of protecting IPR. Attaining the goal of widespread recognition of the importance of IPR protection is the objective of a modern, rule-of-law country. China will work towards that objective.

Premier on the Exchange Rate

18. (SBU) The Premier noted the visit to China one week earlier by U.S. Senators Graham and Schumer. That visit had helped the Senators learn more about China's exchange rate reforms. In July 2005, China changed its exchange rate formation system. Since that time, China has had a managed floating exchange rate based on supply and demand conditions in the market. In the more than 200 days since the exchange rate reform, the renminbi has experienced depreciations and appreciations against the dollar, with an overall depreciation of three percent at present. Some U.S. friends say that the three percent depreciation is too small a change, but one should not forget that the U.S. dollar itself has kept a relatively strong position during this period. Renminbi appreciation against the Japanese yen and Euro has been even higher than its appreciation against the dollar.

BEIJING 00005699 003 OF 005

In recent days, during which the U.S. dollar was getting somewhat weaker, the renminbi's value vis--vis the dollar has been going up again. The Premier related that at a press conference earlier in March he said that China would not impose administrative interference on the exchange rate. China will continue its earnest work on exchange rate reform based on market conditions.

Premier: China, A Developing Country, Needs Time

19. (SBU) The Premier said that after the Secretary's visit to Chongqing in western China, he must realize that, despite the remarkable progress and development in China, the country still remains a developing country, one with very uneven economic development across the country. China's market mechanisms are far from perfect, the legal framework is not yet perfect, the financial sector is reforming but still vulnerable and needs to face up to potential risks. Claiming that China is reforming itself, making progress on a gradual basis, and that China deserves some time, the Premier concluded his initial lengthy exposition.

Secretary Gutierrez: Strong JCCT Outcomes Needed to Overcome

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Perceptions and Prepare for Presidential Meeting

10. (C) The Secretary acknowledged that China has accomplished much in a very short period of time, but promptly turned the discussion to U.S. perceptions that the Presidential visit of November 2005 had not achieved much for U.S. workers and businesses. Thus there is much pressure in the United States to achieve results at the JCCT, which is the next step before Presidents Hu and Bush will meet in Washington later in April. A strong set of JCCT outcomes can help guarantee a very positive meeting for our Presidents, and can even help turn the perceptions of some in the United States that the relationship is balanced in favor of China

because of the trade deficit. In his meeting with Vice Premier Wu Yi earlier on March 28, she had presented a booklet about IPR protection in China to the Secretary. He said that the information therein and China's plans to improve IPR protection and enforcement will provide a great foundation for China's goal of becoming an innovative society. But the focus now must be on results.

¶11. (C) The Secretary requested that the Chinese Government join with the United States Government to do everything possible to make the April JCCT meeting one that is substantive, with key tangible actions and results, so that the U.S. public and U.S. Congress do not feel need to manage the bilateral relationship through legislation. The Secretary appreciates the good efforts and progress made to

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date to prepare for a good JCCT, but both sides need to do even more. Tangible results relating to China's WTO commitments and commitments made at earlier JCCT meetings are required. One area that would have important symbolic as well as commercial value for U.S. industries would be computer software. The Secretary requested that the Premier give attention to U.S. concerns about computer software sales and related issues in China.

¶12. (SBU) Senators Graham and Schumer, the Secretary believes, left China several days earlier feeling better about the trade and economic relationship with China than before they came. However, if nothing happens, if China does not provide tangible results and tangible actions, the pressure on the Senators will escalate and they will feel the need to take very aggressive legislative action. The Senators are expecting Chinese action on U.S. concerns in the future.

¶13. (C) The Secretary urged China to turn his visit and the upcoming JCCT and Presidential visit into events that will address critics of the U.S. trade and economic relationship with China. Further work by both sides could remove lingering trade problems from the table. Much work remains to be done. The United States wants to be China's partner

BEIJING 00005699 004 OF 005

but needs China's help to be able to do that. Much pressure remains in the run-up to the JCCT meeting. A good JCCT meeting will result in a good climate for the meeting of our Presidents. JCCT outcomes that are not perceived as good and meaningful will generate bad press and bad reports just as our Presidents will be coming together. Both sides should do everything to avoid that situation; the bilateral relationship is too important.

Premier Wen: Yes, JCCT Important for President Hu's Very Important Visit

¶14. (SBU) The Premier replied that he agreed with the Secretary's point about the importance of the JCCT in the

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context of preparing for President Hu's visit to the United States. First, Hu Jintao's visit is very important to promoting the bilateral relationship. Therefore, more consensus and more results must be achieved at the seventeenth JCCT meeting.

¶15. (C) Second, China recognizes that the U.S. Administration is facing tremendous pressure from the U.S. Congress. The Premier again expressed his appreciation to President Bush for repeated rejection of extreme actions contemplated by some in Congress and rejection of Section 301 petitions. The President's actions have been very helpful in safeguarding the bilateral relationship.

¶16. (SBU) Third, regarding U.S. trade and economic concerns, China will display positive messages and actions

before and after the seventeenth JCCT meeting, including on computer software as requested by the Secretary moments earlier. The Premier reiterated that China's measures to promote imports from the United States will not be one-time actions, but rather measures that will be continued into the future.

¶17. (SBU) Fourth, thirty years of bilateral economic and trade relations have proven that harmony benefits both countries, and discord harms both countries. The Premier recalled a Chinese-language aphorism in which when one faces a choice between two advantages, one should select the greater advantage, and when one faces a choice between two disadvantages, one should select the one which is least harmful or least injurious. Judging from the speed of development of the bilateral trade and economic relationship, there are many reasons to maintain an optimistic view. Long-term, strategic perspectives are required by both sides when looking at the bilateral economic and trade relationship.

¶18. (SBU) Lastly, both China and the United States face their own problems in economic restructuring. Investment and exports have played a large role in China's recent economic development, while Chinese households have a high savings rate and exhibit a sluggish consumption rate. Still, Chinese consumption has been growing for the last several years at an average annual rate of twelve percent, that is, higher than China's GDP growth rate. U.S. economic challenges are on the opposite side. The United States faces a double deficit and has a low household savings rate. Neither nation has an intention to interfere in the other's domestic economic affairs. But China and the United States can join hands to mitigate the challenges each faces through increased economic cooperation. That is a long-term plan.

The Secretary: Show Results, Show that Engagement Works Better

¶19. (C) The Secretary rejoined that the biggest advantage to be selected now is to show the American people that cooperation with China is better than taking a harder line and enacting legislation to manage the relationship. Cooperation and engagement has been the policy of President Bush's Administration. The next three weeks or so provide the opportunity to demonstrate that policy is the correct one, rather than allowing the people to draw a different

BEIJING 00005699 005 OF 005

lesson from our trade and economic relationship with China. The better advantage will be not having one side alone winning at the JCCT. The public will be closely watching for real outcomes from the JCCT and the visit of the Chinese President, and considering what is the best way to deal with China. The President's policy with China has been one of engagement. Real results from the JCCT is the best way to show that engagement is the best way to deal with China, the Secretary reiterated.

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¶20. (C) Premier Wen concluded that he agreed with the Secretary's final observations. The bilateral relationship

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should not be defined in opposition and confrontation. Rather, the relationship should be and is based on dialogue, engagement and cooperation. Using facts and reality, each side should tell its respective people that the economic and trade relation and cooperation is beneficial to both countries' peoples. In Chongqing, the Secretary had repeatedly said businesses and governments need to be seen as credible and sincere. The Premier hoped that through his meetings with himself, Vice Premier Wu Yi, and colleagues at MOFCOM and the Foreign Ministry, the Secretary felt the Chinese Government's sincerity and commitment to address bilateral concerns. The Premier concluded by saying he hopes

and believes that the two sides can make the seventeenth JCCT meeting a success.

¶21. (U) Chinese participants in this fifty-minute meeting at the ZiGuangGe Pavilion in the ZhongNanHai leadership compound included:

Premier WEN Jiabao
Minister of Commerce BO Xilai
Vice Foreign Minister YANG Jiechi
Ministry of Commerce (MOFCOM) Vice Minister MA Xiuhong
MOFCOM Director General for American and Oceanian Affairs HE Ning
MOFCOM Protocol Department Deputy Director General ZHOU Ping
MOFCOM U.S. Affairs Director WANG Hongbo
MOFCOM U.S. Affairs Official LIU Haiyang
MOFCOM U.S. Affairs Official XUE Dong
MOFCOM U.S. Affairs Official TAN Yuwei
MOFCOM Protocol Dept. Interpreter Ms. XIONG

¶22. (U) USG participants in this meeting were:

Secretary of Commerce Carlos Gutierrez

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Ambassador Clark T. Randt, Jr.
Claire Buchan, Chief of Staff, Office of the Secretary of Commerce
Rod Hunter, Special Assistant to the President and NSC Senior Director for International Trade, Energy and Environment
Henry Levine, Deputy Assistant Secretary of Commerce
Craig Allen, Minister-Counselor for Commercial Affairs, U.S. Embassy
Robert Luke, Minister-Counselor for Economic Affairs, U.S. Embassy
Cheryl McQueen, Director, Office of the Chinese Economic Area, Commerce Department
Christopher Beede, Deputy Chief, Economic Section, U.S. Embassy (notetaker)
Eric Madison, Trade and Investment Policy Unit Chief, Economic Section, U.S. Embassy
Ira Belkin, Trade Facilitation Office Director, Commercial Section, U.S. Embassy
David Gossack, Commercial Officer, U.S. Embassy
Val Huston, Commercial Officer, U.S. Embassy
James Brown, Interpreter, U.S. Embassy
RANDT